Vietnam’s Sovereign Rating
Key Drivers Behind the Upgrade to Ba3

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Key messages

1. Growth in Vietnam likely to remain a key credit support, despite weakening trends across the region

2. Debt burden should stabilize, but at levels higher than peers

3. Risks of disruption to external sector from evolving trade dynamics

4. Future rating triggers will rest on the outlook for debt and deficit reduction, institutional improvements, and the external sector
1 Strong growth potential, stabilizing debt burden
Vietnam’s growth potential has improved as it moves up the value chain

Transition from low value-added exports to higher value-added goods, whilst retaining competitiveness in both areas

Real GDP growth rates vs. peer medians (% year-on-year)

Source: World Bank, Moody’s Investors Service

World export market share in machinery and electronics, top exporters in Asia (%)

Source: World Bank, Moody’s Investors Service
Rapid growth supports stabilizing debt

Although fiscal deficits have narrowed since 2014, debt has been on an upward trajectory

**Fiscal deficit versus peers (% of GDP)**

**Government debt versus peers (% of GDP)**

Source: Ministry of Finance, Moody's Investors Service
Funding profile has improved

Move towards longer-tenor, local-currency debt limits susceptibility to financial shocks

Local currency domestic debt (% of total debt)

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Government interest payments (% of revenue)

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Source: Ministry of Finance, Moody’s Investors Service
2 Improvements in the banking system
Asset quality and profitability have improved

Problem loan ratios have declined, helped by problem asset recoveries and write-offs, as well as credit growth

![Graph showing problem loan ratios from 2014 to 2017](chart)

Note: Moody's definition of problem loans for Vietnam includes loans classified as special mention and non-performing under Vietnamese accounting standards, and Vietnam Asset Management Company (VAMC) securities.

Source: Moody's Investors Service

Profitability has improved, driven by economic strength and core income growth

![Graph showing profitability metrics from 2014 to 2017](chart)

Source: Moody's Investors Service
Rapid credit growth remains a constraint

History of susceptibility to credit cycles is still an overhang, credit gaps still exist

Credit gaps, %

Credit intensity, (VND billion, %)

Sources: National authorities, and IMF staff calculations

Source: Haver Analytics, World Bank, Moody’s Investors Service
3. Robust external sector
Export growth has remained strong
Resilient export growth has supported the current account

Export growth vs other groups (% year-on-year)

Current account versus peers (2017, % of GDP)

Montenegro, B1
Senegal, Ba3
Bolivia, Ba3
Serbia, Ba3
Fiji, Ba3
Bahrain, B1
Ba median
Sri Lanka, B1
Cote d Ivoire, Ba3
Honduras, B1
Bangladesh, Ba3
Dominican Republic, Ba3
Vietnam, Ba3

Source: IMF, Moody’s Investors Service
FDI inflows support external position

Inflows to export-oriented industries have helped drive FX reserve accretion

FDI as a share of GDP vs peers (%, 2017)

Vietnam foreign reserves and EVI

Source: World Bank, Moody’s Investors Service
How will higher tariffs impact Vietnam?

As an open, export-led economy, Vietnam could be impacted by the ongoing trade dispute between the US and China.

**Trade openness of economy vs similarly-rated peers (% of GDP)**

Source: Moody’s Investors Service
Vietnam has close trade linkages with both China and the US

As an important node in the regional supply chain, Vietnam is a large intermediate-goods importer

Vietnam’s export share by country (% of total exports)

Vietnam’s exports, breakdown by products (% September 2018)

Source: Haver Analytics, UN Comtrade, General Statistics Office (GSO), Moody’s Investors Service
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